



# Grant Thornton

An instinct for growth™

BY CASHMORE MUCHAONYERWA, HEAD: FINANCIAL MANAGEMENT SOLUTIONS, GRANT THORNTON JOHANNESBURG – JUNE 2013

## In the public eye

### *Sustainable, strategic procurement vital for effective service delivery*

**The public sector needs to ensure effective, sustainable and strategic management of the procurement function. This is vital for economic development and effective service delivery in South Africa.**

Government institutions are under increasing pressure from the community, the Minister of Finance and the Auditor General of South Africa (AGSA) to be accountable and improve service delivery.

The 2014 budget speech by the Minister of Finance, Pravin Gordhan, highlighted the need to eliminate waste and realise better value for money from public expenditure.

The AGSA's annual reports continue to highlight the procurement and contract management challenges faced by government at all levels. 84% of municipalities had findings on supply chain for the 2012 financial year. At a departmental level, the latest 2013 reports show this was at 60%.

Interestingly, a new international Grant Thornton report, 'Public financial management reform in a period of global adjustment', shows that governments globally have been focusing on improving public procurement following the recent worldwide economic crisis.

The research showed that a key trend is a focus on improving public procurement to address the need for more effective outcomes of the process and better value for the money.

Over 65 percent of respondents indicated they have introduced procurement system reforms to address the need for more efficient and effective public financial management (PFM) practices. Measures include decentralising procurement systems, introducing new procurement legislation, and introducing electronic procurement systems.

Here in South Africa, sustainable procurement is a key element of service delivery. For this reason those charged with governance should take supply chain management more seriously than simply regarding it as an administrative function.

"65% of respondents indicated they have introduced procurement system reforms to address the need for more efficient and effective PFM practices"



### Strategic procurement

Procurement should be used as a strategic policy lever to advance socio-economic developmental objectives, and should incorporate the following:

- **Effectiveness in meeting service delivery needs**

The government is not in the business of procurement, it is in a service delivery business. Therefore goods and services procured should always link to institution's service delivery objectives and established developmental goals.

- **Value for money**

It is crucial that this is a key consideration from the start of the procurement process, throughout the decision-making process and contract management. According to National Treasury the following would ensure value for money:

- a) avoid any unnecessary costs and delays for themselves or suppliers;
- b) monitor the supply arrangements and reconsider them if they cease to provide the expected benefits; and
- c) ensure continuous improvement in the efficiency of internal processes and systems.

- **Risk management**

Measures should be put in place to ensure that all possible risks associated with the procurement of goods and services are identified and managed. Some of the risks to be managed include delivery risk, financial and budget risks, compliance risk and reputational risk.

- **Accountability for decisions and expenditure**

Mechanisms should be in place to ensure individuals and organisations are answerable for their plans, actions and outcomes. Ultimately, the accounting officer takes overall accountability for procurement decisions and should ensure that decisions made are justifiable and in the best interests of the organisation.

- **Compliance with procurement**

It is vital to align regulations and other pieces of legislation, including the Municipal Finance Management Act, Public Finance Management Act and National Treasury Regulations and Preferential Procurement Regulations.

- **Objectivity, fairness and equity of procurement decisions**

As far as possible, procurement decisions should be based on an objective evaluation of all bids based on predetermined criteria. Procurement decisions need to be fair and free of bias and any conflicts of interest. For this reason it is advisable that independent and effective committees are established to evaluate and adjudicate bids.

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**In its 2006 publication, Procuring the Future, the Sustainable Procurement Task Force defines sustainable procurement as “a process whereby organisations meet their needs for goods, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not only to the organisation, but also to society and the economy, while minimising damage to the environment.”**

## Six steps to effective procurement management

### 1. Determine what needs to be procured

Determine and clarify what needs to be procured. This should be linked to the institution's strategic objectives and be budgeted for. It is crucial that a needs assessment is conducted at the beginning of the process to ensure that goods or services are acquired in line with the service delivery requirements of the institution.

### 2. Choose a procurement strategy

Public institutions should research the market and determine the best strategy to meet their procurement needs.

### 3. Solicit bids

Bids should be solicited based on defined policies and procedures. All potential suppliers should have reasonable access to procurement opportunities, which would include advertising them in mainstream media, and bidders should be given the appropriate amount of time to respond. Effective competition should also be encouraged.

### 4. Evaluate bids received

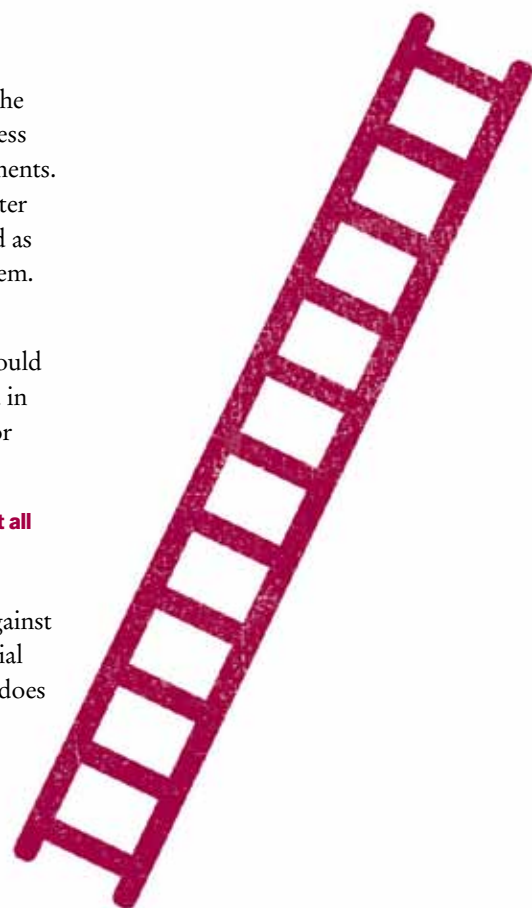
Bids should only be evaluated in terms of the criteria determined at the beginning of the procurement process and stipulated in the bidding documents. Amending the evaluation criteria after closure of the bids would be viewed as jeopardising the fairness of the system.

### 5. Award the contract

A service level agreement (SLA) should be established for all work awarded in order to define the level of service or quality standards to be provided.

### 6. Administer contract and verify that all contract requirements are met

Management should monitor performance of service providers against contract specifications. Take remedial action whenever a service provider does not deliver as per agreed standards.



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## In conclusion

Accounting officers in all government institutions should ensure that spending decisions are made in a way that achieves value for money on a whole life cycle basis, and result in wider economic, social and environmental benefits.



**Reason says:  
there are three  
ways to grow.**

**Instinct says:  
strong partnerships lead  
to sustainable growth.**

## Contact us

### Bloemfontein

#### Terry Ramabulana

Director, Public Sector Advisory  
Suite 6 The Park,  
14 Reid Street,  
Westdene,  
Bloemfontein, 9300  
T +27 (0)51 430-5368  
E [terry.ramabulana@za.gt.com](mailto:terry.ramabulana@za.gt.com)

### Cape Town

#### Barry Lodewyk

Partner, Public Sector Assurance

#### Martin Jansen van Vuuren

Director, Public Sector Advisory  
6th Floor, 119 Hertzog Boulevard,  
Foreshore  
Cape Town, 8001  
P O Box 2275  
Cape Town, 8000  
T +27 (0)21 417-8800  
E [cape@za.gt.com](mailto:cape@za.gt.com)

### Durban

#### Ahmed Timol

Partner, Public Sector Assurance

#### Bernadine Galliver

Executive Manager, Public Sector Advisory  
2nd Floor, 4 Pencarrow Crescent  
Pencarrow Park  
La Lucia Ridge Office Estate, 4019  
P O Box 950  
Umhlanga Rocks, 4320  
T +27 (0)31 576-5500  
E [mail@gtdbn.co.za](mailto:mail@gtdbn.co.za)

### George

#### Charles Minie

Managing Partner  
124 Cradock Street  
George, 6529  
Private Bag X6544  
George, 6530  
T +27 (0)44 874-2320  
E [info.george@za.gt.com](mailto:info.george@za.gt.com)

### Johannesburg

#### Seth Radebe

Director, Public Sector Assurance  
42 Wierda Road West  
Wierda Valley, 2196  
Private Bag X10046  
Sandton, 2146  
T +27 (0)11 384-8000

#### Terry Ramabulana

Director, Public Sector Advisory  
137 Daisy Street,  
Sandown, 2196  
Private Bag X28  
Benmore, 2010  
T +27 (0)11 322-4500  
E [info@za.gt.com](mailto:info@za.gt.com)

### Nelspruit

#### Billy de Jager

Director  
No 2 Cherato Place  
36 Murray Street  
Nelspruit, 1201  
T +27 (0)13 752-8084  
E [info@za.gt.com](mailto:info@za.gt.com)

### Polokwane

#### Yugen Pillay

Director  
Suite 3, Parklane building  
76 Hans Van Rensburg Street  
Polokwane, 0699  
T +27 (0)15 297-3541  
E [yugen.pillay@za.gt.com](mailto:yugen.pillay@za.gt.com)

### Port Elizabeth

#### David Honeyball

Partner  
125 Cape Road, Mount Croix  
Port Elizabeth, 6001  
P O Box 63814  
Greenacres, 6057  
T +27 (0)41 374-3222  
E [pe@za.gt.com](mailto:pe@za.gt.com)

### Pretoria

#### Johan Blignaut

Managing Partner  
Building A, Summit Place  
Garsfontein Road  
Menlyn, 0181  
P O Box 1470  
Pretoria, 0001  
T +27 (0)12 346-1430  
E [infopta@za.gt.com](mailto:infopta@za.gt.com)

### Rustenburg

#### Seth Radebe

Director, Public Sector Assurance  
234-2 Beyers Naude Drive,  
Rustenburg, 0300  
T +27 (0)14 592-1028  
E [seth.radebe@za.gt.com](mailto:seth.radebe@za.gt.com)

### National marketing

#### Pamela Grayman

Partner and Head of National Marketing  
and Business Development  
137 Daisy Street  
Sandown, 2196  
Private Bag X28  
Benmore, 2010  
T +27 (0)860-GTLIN  
E [info@za.gt.com](mailto:info@za.gt.com)



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